



State of Washington
Department of Revenue

Excise Tax Advisory

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TELEPHONE ANSWERING SERVICE - SERVICES OR RETAIL SALES

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Are telephone answering service businesses required to collect sales tax on any of their charges to customers or to pay Retailing business and occupation tax on any of their receipts?

Traditionally, a telephone answering business primarily provides services such as telephone answering, message taking, call screening and evaluation, logging of times and messages, etc. Providers of such activities are properly taxed only under the Service and Other Activity classification of the business and occupation tax.

Modern technology and rapid innovation in the telephone industry has given rise to new business activities no longer clearly within the Service and Other Activity classification referenced above. By amendment to RCW 82.04.050 and a new law (RCW 82.04.065), the Legislature has made certain activities subject to retail sales tax and Retailing business and occupations tax. These RCW 82.04.065 activities include:

- the provision of, with separate charges for, "competitive telephone service", ie., the provision of telecommunications equipment and apparatus, or the maintenance and repair thereof, by all persons even though not deemed to be, or regulated as, telephone companies;
- the provision of a "network telephone service", ie., the provision of or access to local telephone networks or systems or to switching, toll, or coin telephone services as a adjunct thereto, or the provision of telephonic, video, data, or similar communication or

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transmission system services for hire, via a local telephone network, or via toll, channel, cable, microwave or similar means of access to any such system, except by radio or television stations;

The Department finds that telephone answering service providers are not generally engaged in business activities of the above description, even though some of the activities they perform, when isolated from the primary or general business activity, would satisfy the retail sale definition.

As a general practice, when no itemized or separate billing for manual or electronic switching, cross connecting, cross accessing, or other possibly retail service is provided, the Department will not impute or allocate any such charges or itemization from the gross services billed by the telephone answering service business. The telephone answering business would continue to be liable for Service business and occupation tax on all its gross receipts.

The Department considers the primary nature of the activity in establishing the tax classification applicable; Incidental services of a possibly different classification, unless clearly identified and billed, will not affect the tax classification so established.

However, if the Department determines that the primary nature of the activity has become one of retail services, as outlined above, warranting thereby a reclassification of tax, or that incidental retail services such as manual or electronic switching or cross connecting of lines and networks are separately billed, the receipts of such clearly identified retail activities will be taxed as retail sales, subject to the Retailing business and occupation tax and retail sales tax.

The application of retail sales tax to any portion of telephone answering service income has prospective application only from this effective date. Sales tax will not be assessed for any periods prior to the effective date of this bulletin, nor will refunds of any sales tax actually collected and paid be allowed.